

Notes on STR Spending Discussion

Council: Invested in limiting STRs to protect neighborhood integrity with an unintended consequence of eliminating a significant portion of general fund revenue; wants to argue that money earmarked for enforcement has not been spent that way.

City: Has incurred costs related to STRs and relied upon the revenue generated by them to fund activities related to administration and enforcement. Has drawn down money from the State that should not be jeopardized by public statements that could be interpreted as the City of falsifying records to the State.

Middle Ground: Keep the public argument (though not private discussion) away from past spending, especially submissions to the State, and gear it toward future spending on enforcement, with the knowledge that enforcement is likely to require fewer City resources than anticipated since the major STR platforms are agreeing to comply with the new law.

Below is the reasoning behind a request for an STR spending to be deliberated as a private informational discussion instead of a public debate:

History

Summary: The use of the Quality of Life Fund is limited to STR administration related to code enforcement, which complicates the drawdown of funds from the State by requiring the reimbursement of expenditures across many agencies instead of a broader category, such as economic development, or public safety that could be attributed to more localized spending.

The Quality of Life Fund is a hotel-motel tax dedication of state sales tax generated at STRs in Orleans Parish. All other parishes have a similar dedication of state funds for larger hotels with a disbursement procedure that operates in much the same manner as the Quality of Life Fund, i.e., reimbursable through a CEA with State Treasury. The biggest difference is that the Quality of Life fund use is limited to short term rental administration and enforcement where all other hotel-motel tax dedications are eligible for a much broader use, such as economic development or public safety.

Accessing the Funds - Special Permission

Summary: The City prioritized drawing down the money available in the Fund to avoid the appearance of ignoring the funds or having them swept by the State. To date, the City has drawn down \$6.1M and has another \$2.3M that is pending the submission of actual expenditures to the State. The complicated drawdown was accomplished with special permission from the State Treasurer allowing the City to submit expenses as a general ledger instead of an actual invoice, as other similar dedications require, saving both the City and State considerable time and resources.

In order for the City to access the Quality of Life funds, a state appropriation must be in place along with a CEA with State Treasury authorizing the disbursement. The CEA requires an estimate of the cost associated with the use of the fund, in this case STR licensing and

enforcement. Once expenses are incurred, the City must submit proof of expenditure to the State in order for the money to be disbursed. This procedure is the same for all other state hotel-motel sales tax dedication recipients. However, because most other hotel-motel dedications are subject to uses that are more broadly defined, the recipient entity can submit paid invoices of eligible expenses to justify the reimbursement. If the City submits invoices for all of the agencies involved in STR licensing in order for the State to calculate a percentage of the expense associated with STRs, the paperwork and effort would be too voluminous for all parties. Thus, the City has obtained special permission by request of the Mayor and with the approval of the State Treasurer to submit a general ledger of all relevant transactions in lieu of actual invoices.

It is important for the City to draw funds down in an expeditious manner to avoid the appearance that the money is not needed and to mitigate the ability of the State to sweep the funds in the event of a budget downturn.

Expediency of Submission

Summary: It was much more expeditious to submit other operating expenses through the general ledger than personal services through payroll logs and the required adjustments. The State Treasurer's Office agreed with this method.

The CEA offers two avenues for expenses: salaries/related benefits and other operating expenses. The City submits only other operating expenses for the Quality of Life drawdown for the following reasons. With other operating expenses, per the special agreement between the Mayor and the Treasurer, the City can submit the general ledger directly from the financial system, which is an uncomplicated way to track and verify the expenses once the data is extracted. If the City were to use salaries and related benefits, the city would have to submit a payroll log of each employee and the amount attributed to STRs. The paperwork required for the payroll log is more labor intensive to extract and track to avoid double-counting between submissions. For instance, overtime or extra pay for civil service training would have to be extracted unless it was related. Or, if an employee is reassigned or paid under one agency but performs most duties under another agency, the data would have to be adjusted. Thus, to get the money to the City in the most expeditious manner possible, the submission of actual expenditures to the State contains only operating expenses with the advice and approval of State Treasury.

Disagreement about STR Costs

Summary: If the City now disagrees publicly about what is considered a STR expense, any submission to the State of eligible STR expenses could be jeopardized. Changes can be made going forward if the methodology is not preferred, but ideally those changes could be agreed upon through staff negotiation and not public discourse in order to protect existing funds.

A public disagreement over what is considered eligible STR expenses may jeopardize the \$6.1M that has already been drawn down from the State as well as nullify the executed CEA for the additional \$2M supplemental appropriation. It is possible that the State Treasurer, who is running for reelection this Fall and does not appear to need New Orleans'

vote, could decide to use a disparity over what is considered an eligible cost to claw back the Quality of Life Fund money for the State.

If the City wants to change the way it calculates STR-related expenses, it can be accomplished with internal negotiation and a prospective application to the CEA that is currently being drafted for the SFY 19/20 appropriation of \$4.3M. The wish is that all parties are mindful of what has already been submitted to the State for money that has already been spent and the inherent vulnerabilities therein. Otherwise, the City could be facing an even larger budget hole than is expected from the STR rule changes.